Let me give a cheer for the Bank of England

Regular readers will know I have been critical of the Bank for its tough squeeze on car loans and mortgages since March 2017. Some of you have written in to support the Bank, claiming with them that the build up of consumer debt and mortgages is worrying and they are right to rein it in.

So I was pleased to read the recent speech of the Deputy Governor Broadbent who has offered a more considered position by the Bank of England. They now acknowledge that there has been no worrying increase in consumer debt as reflected in credit card, overdraft and other borrowing. The main increase in consumer borrowing has occurred through an increase in student loans as more people graduate from universities under the loan system. As the Bank recognises, much of this debt will never be repaid, and it is more a state debt than a personal one as repayments are only made above certain income levels. It is more of a graduate tax on success. There has been a more modest rise in car loans, but as the Bank now accepts most of this is a kind of hire contract. There is no risk for the individual who would simply surrender the car. The individual does not own it. The Bank also accepts that the ratios and spread of these car loan hire contracts is sufficiently broad for there to be no great risk to the financing houses responsible.

I hope this more thorough analysis by the Bank will lead to a relaxation of policy on car hire contracts. I hasten to add I have no personal interest as I do not want one myself. There are however many people who would like to renew their car and buy a more fuel efficient and clean vehicle, currently restrained by the squeeze.

The Bank also points out that mortgage affordability is considerably above the levels that prevailed in the years before the banking crash. Whilst house prices are on average well up and a higher multiple of earnings than in the 1990s, the much lower interest rates means that mortgage outgoings are not up as a proportion of income on normal levels at the end of the last century. Again the Bank rightly confirms my view that there is no excessive mortgage debt problem out there.

Both our housing and our car market have been damaged by high and increased transaction taxes, by changes to other tax arrangements and by a credit squeeze. It is time to relax it a bit. I am glad I can now agree with the Bank’s analysis, which seems thorough and convincing over this issue of debt.